

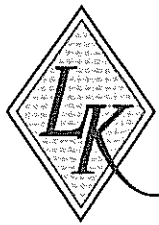
DURAND AREA SCHOOLS

DURAND, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
Report of Independent Accountants	I
Management's Discussion and Analysis	II - VIII
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Fiduciary Fund	
Statement of Fiduciary Net Assets	5
Statement of Changes in Fiduciary Net Assets	6
Notes to the Financial Statements	7 – 18
Required Supplementary Information	
Budgetary Comparison Schedules:	
General Fund	19
Other Supplemental Information	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	20
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	21
Combining Balance Sheet – Special Revenue Fund	22
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Special Revenue Fund	23
Individual Schedules of Revenues, Expenditures and Other Financing Uses:	
Schedule 1 - General Fund - Schedule of Revenues	24
Schedule 2 - General Fund - Schedule of Expenditures	25 – 29
Other Supplemental Schedules:	
Schedule 3 - Trust and Agency Fund – Schedule of Receipts and Disbursements – Student Activities	30 – 31
Schedule 4 – Private Purpose Trust Funds – Statement of Revenue and Expenditures – Scholarship Fund	32 – 34
Schedule 5 - Schedule of Bond Principal and Interest Requirements	35 – 36



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 17, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Durand Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Durand Area Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 17, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Durand Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf PC
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Durand Area Schools, a K-12 school District located in Shiawassee County, Michigan, is in its third year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Durand Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

District Wide Financial Statements: (Continued)

These two statements report the Durand Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

NET ASSETS SUMMARY

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets	\$7,076,533	\$7,286,109
Non-Current Assets	<u>12,173,895</u>	<u>12,756,584</u>
<u>TOTAL ASSETS</u>	<u>\$19,250,428</u>	<u>\$20,042,693</u>
<u>LIABILITIES</u>		
Current Liabilities	\$6,956,021	\$6,873,345
Long-Term Liabilities	<u>11,483,487</u>	<u>12,559,394</u>
Total Liabilities	\$18,439,508	\$19,432,739
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	656,256	251,638
Restricted - Debt Service	374,180	849,274
Restricted - Capital Projects	231,561	103,985
Unrestricted	<u>(451,077)</u>	<u>(594,943)</u>
Total Net Assets	<u>\$810,920</u>	<u>\$609,954</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$19,250,428</u>	<u>\$20,042,693</u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$917,248	\$877,878
Property Taxes Levied for Debt Service	1,282,526	1,234,386
Property Taxes Levied for Capital Projects	159,705	154,925
State of Michigan Unrestricted Foundation Aid	12,208,355	12,519,866
Other General Revenues	64,692	28,753
Total General Revenues	<u>\$14,632,526</u>	<u>\$14,815,808</u>
<u>Operating Grants:</u>		
Federal	778,979	815,709
State of Michigan	487,610	548,975
Other Operating Grants	39,296	34,441
Total Operating Grants	<u>\$1,305,885</u>	<u>\$1,399,125</u>
<u>Charges for Services:</u>		
Food Service	291,812	311,234
Athletics	84,714	68,247
Other Charges for Services	693,552	524,196
Total Charges for Services	<u>\$1,070,078</u>	<u>\$903,677</u>
Total Revenues	<u>\$17,008,489</u>	<u>\$17,118,610</u>
<u>EXPENSES</u>		
Instruction & Instructional Support	9,574,474	9,846,771
Support Services	4,617,733	5,045,827
Community Services	112,376	151,110
Food Service	595,586	616,730
Athletics	389,771	362,979
Bond Issuance Costs	38,349	0
Interest on Long-Term Debt	944,066	681,065
Depreciation	535,168	535,168
Total Expenses	<u>\$16,807,523</u>	<u>\$17,239,650</u>
<u>INCREASE (DECREASE) IN NET ASSETS</u>	<u>\$200,966</u>	<u>(\$121,040)</u>
<u>BEGINNING NET ASSETS</u>	<u>609,954</u>	<u>730,994</u>
<u>ENDING NET ASSETS</u>	<u><u>\$810,920</u></u>	<u><u>\$609,954</u></u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets increased by \$200,966 to a total of \$810,920. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$404,618 during the year due to purchases of new capital assets and issuance of refunding bonds exceeding depreciation and principal payments on related debt. The District's Unrestricted Net Assets increased by \$143,866 during the year and the restricted portion of the net assets decreased by \$347,518. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenses for the year by \$200,966. The total revenues decreased by \$110,121 or 1% over last years amounts. The major change was a decrease in state aid. Expenditures decreased by \$432,127 or 3% over last year. Major changes were decreases in salaries and fringe benefit costs.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$61,609 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year decreased by \$147,701 primarily from a decrease in state aid caused by a reduction in enrollment. Expenditures and other financing uses decreased by \$328,898, primarily due to decreases in salaries and fringe benefit costs. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Durand Area Schools foundation allowance was \$6,700 per student for the 2004-2005 school year.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2004-2005 was 1,961 students. A decrease of 67 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 16.6199 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$917,248. An increase of \$39,370 from the prior year.

Debt Retirement Fund

The districts debt retirement fund balance decreased by \$475,094. The fund balance is restricted to use for payments on bonded debt. The funds had expenditures of \$1,192,665 in paying the required interest and principal payments of the school's bonded debt. The majority of the fund's revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) In Lieu of Taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2004-2005, the District's debt millage levy was \$5.6 mills that generated revenue of \$1,282,526. An increase of \$49,492 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$14,627,449	\$15,017,302	\$14,933,654	2.67	0.56
Expenditures	14,684,768	15,070,190	14,995,263	2.62	0.50
<u>TOTAL</u>	<u>(\$57,319)</u>	<u>(\$52,888)</u>	<u>(\$61,609)</u>		

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Durand Area Schools amends its budget quarterly during the school year. The June, 2005 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget. There were no significant variations between budget and actual results for both revenues and expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-04	Increases (Decreases) 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
Energy & Durant Bonds	\$482,639	\$0	\$150,000	\$332,639
Building & Site Bonds	11,930,000	10,315,000	11,095,000	11,150,000
Contracts Payable	92,307	0	57,307	35,000
Severance Payable	120,000	(120,000)	0	0
Sick & Vacation Pay Payable	646,755	(62,827)	0	583,928
<u>Total Long-Term Bond Obligations</u>	<u>\$13,271,701</u>	<u>\$10,132,173</u>	<u>\$11,302,307</u>	<u>\$12,101,567</u>

On March 29, 2005, the Durand Area Schools issued \$10,315,000 in General Obligation – Unlimited Tax Bonds with an average interest ranging from of 3.00% to 4.40%. The District issued the bonds to advance refund \$10,710,000 of the outstanding 1997 Building & Site Bonds with a interest rate ranging from 5.250% to 5.375%. The net proceeds were deposited with an escrow agent and used to purchase U.S. Government Securities. These securities will provide for future debt service on the 2005 Refunding Bonds. As a result, the 1997 Refunding Bonds are considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$10,315,000 at June 30, 2005.

B. Capital Assets

The district's net investment in capital assets decreased by \$582,690 during the fiscal year. This can be summarized as follows:

	Balance 7-1-04	Additions	Deductions	Balance 6-30-05
Capital Assets	\$22,619,403	\$44,305	\$0	\$22,663,708
Less: Accumulated Depreciation	(9,862,819)	(626,995)	0	(10,489,814)
<u>Net Investment Capital Outlay</u>	<u>\$12,756,584</u>	<u>(\$582,690)</u>	<u>\$0</u>	<u>\$12,173,894</u>

Significant additions were building improvements to the mechanical building.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Durand Area Schools.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$4,601,354	\$4,800,553
Accounts Receivable	30,600	31,269
Taxes Receivable	0	6,398
Due from Other Governmental Units	2,411,180	2,413,101
Inventory	33,399	34,788
Total Current Assets	<u>\$7,076,533</u>	<u>\$7,286,109</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	22,663,708	22,619,403
Less: Accumulated Depreciation	<u>(10,489,813)</u>	<u>(9,862,819)</u>
Total Noncurrent Assets	<u>\$12,173,895</u>	<u>\$12,756,584</u>
<u>TOTAL ASSETS</u>	\$19,250,428	\$20,042,693
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	662,686	536,815
State Aid Note Payable	4,500,000	4,500,000
Salaries Payable	1,081,999	1,006,797
Accrued Expenses	93,256	109,516
Deferred Revenue	0	7,910
Current Portion of Long-Term Obligations	618,080	712,307
Total Current Liabilities	<u>\$6,956,021</u>	<u>\$6,873,345</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>11,483,487</u>	<u>12,559,394</u>
<u>TOTAL LIABILITIES</u>	\$18,439,508	\$19,432,739
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	656,256	251,638
Restricted for:		
Debt Service	374,180	849,274
Capital Projects	231,561	103,985
Unrestricted	<u>(451,077)</u>	<u>(594,943)</u>
<u>TOTAL NET ASSETS</u>	<u>\$810,920</u>	<u>\$609,954</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities:				Net (Expense)
Instruction	\$9,574,474	\$0	\$984,778	Revenue &
Support Services	4,617,733	569,202	66,319	Change in
Community Services	112,376	124,350	0	Net Assets
Food Service	595,586	291,812	254,788	
Athletics	389,771	84,714	0	
Bond Issuance Costs	38,349	0	0	
Interest on Long-Term Obligations	944,066	0	0	
Depreciation - Unallocated	535,168	0	0	
<u>TOTALS</u>	<u>\$16,807,523</u>	<u>\$1,070,078</u>	<u>\$1,305,885</u>	<u>(\$14,431,560)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,359,479
State Aid				2,267,189
Investment Earnings				12,208,355
Miscellaneous				37,829
Total General Revenues and Transfers				26,831
Change in Net Assets				26,863
				1,922
				<u>\$14,632,526</u>
				<u>\$14,815,808</u>
				<u>\$200,966</u>
				<u>(\$121,040)</u>
Net Assets - Beginning				609,954
<u>Net Assets - Ending</u>				<u>730,994</u>
				<u>\$810,920</u>
				<u>\$609,954</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$4,012,611	\$337,483	\$251,260	\$4,601,354
Accounts Receivable	30,600	0	0	30,600
Due from Other Governmental Units	2,406,075	0	5,105	2,411,180
Due from Other Funds	0	36,697	3,882	40,579
Inventory	24,357	0	9,042	33,399
<u>TOTAL ASSETS</u>	<u>\$6,473,643</u>	<u>\$374,180</u>	<u>\$269,289</u>	<u>\$7,117,112</u>
<u>LIABILITIES</u>				
Accounts Payable	\$653,095	\$0	\$9,591	\$662,686
State Aid Anticipation Note Payable	4,500,000	0	0	4,500,000
Due to Other Funds	40,579	0	0	40,579
Salaries Payable	1,081,999	0	0	1,081,999
Total Liabilities	\$6,275,673	\$0	\$9,591	\$6,285,264
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	24,357	0	9,042	33,399
Debt Retirement	0	374,180	0	374,180
Capital Projects	0	0	231,561	231,561
Unreserved:				
Undesignated, Reported In:				
General Fund	173,613	0	0	173,613
School Service Funds	0	0	19,095	19,095
Total Fund Balances	\$197,970	\$374,180	\$259,698	\$831,848
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$6,473,643</u>	<u>\$374,180</u>	<u>\$269,289</u>	<u>\$7,117,112</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total Governmental Fund Balances:		\$831,848
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$22,663,708 and the accumulated depreciation is \$10,489,813		12,173,895
Accrued Interest on Long-Term Debt		(93,256)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$11,482,639	
Contracts Payable	35,000	
Sick Pay Payable	583,928	
Total Long-Term Liabilities		<u>(12,101,567)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$810,920</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$1,297,832	\$1,283,762	\$536,285	\$3,117,879
State Sources	12,666,992	0	28,973	12,695,965
Federal Sources	553,164	0	225,815	778,979
Total Revenues	\$14,517,988	\$1,283,762	\$791,073	\$16,592,823
<u>EXPENDITURES</u>				
Current:				
Instruction	9,574,474	0	0	9,574,474
Student Services	353,454	0	0	353,454
Instructional Support	68,619	0	0	68,619
General Administration	406,954	0	0	406,954
School Administration	1,147,772	0	0	1,147,772
Business Administration	517,428	0	0	517,428
Operation & Maintenance of Plant	1,213,941	0	0	1,213,941
Transportation	728,498	0	0	728,498
Community Services	112,376	0	0	112,376
Food Service	0	0	979,926	979,926
Debt Service				
Principal	0	535,000	0	535,000
Interest	0	656,915	0	656,915
Other	0	750	0	750
Capital Outlay	0	0	32,183	32,183
Total Expenditures	\$14,123,516	\$1,192,665	\$1,012,109	\$16,328,290
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$394,472	\$91,097	(\$221,036)	\$264,533
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to (from) Other Funds	(524,820)	169,820	355,000	0
Proceeds from Sale of Bonds		10,315,000	0	10,315,000
Issuance Costs	0	(38,349)	0	(38,349)
Deposit with Escrow Agent		(11,012,662)	0	(11,012,662)
Other Transfers	68,739	0	0	68,739
Total Other Financing Sources (Uses)	(\$456,081)	(\$566,191)	\$355,000	(\$667,272)
Net Change in Fund Balance	(\$61,609)	(\$475,094)	\$133,964	(\$402,739)
<u>FUND BALANCE - BEGINNING</u>	259,579	849,274	125,734	1,234,587
<u>FUND BALANCE - ENDING</u>	\$197,970	\$374,180	\$259,698	\$831,848

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Total net change in fund balances - governmental funds	(\$402,739)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(582,690)
Proceeds from Sale of Refunding Bonds	(10,315,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	11,422,307
Change in accrued interest on long-term liabilities	16,261
Decrease in accrued compensated absences	<u>62,827</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$200,966</u></u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$83,916	\$156,111	\$240,027
<u>LIABILITIES</u>			
Due to Student Groups	<u>83,916</u>	<u>0</u>	<u>83,916</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$156,111</u>	<u>\$156,111</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Private Purpose Trusts
<u>REVENUE</u>	
Interest	\$829
Donations	6,393
Fund Transfers	1,481
Total Revenue	<u>\$8,703</u>
<u>EXPENDITURES</u>	
Scholarships	6,204
Fund Transfers	1,080
Service Fees	4
Total Expenditures	<u>\$7,288</u>
<u>CHANGE IN NET ASSETS</u>	\$1,415
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>154,696</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$156,111</u></u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Durand Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. Voters in the School District authorized $\frac{3}{4}$ mill on March 11, 1997 for ten years to be used for school facility improvement.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

The District did not adopt a budget for the Debt Service fund for the 2004-2005 school year. Therefore, no budget information is presented in the required supplementary information.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had no investments.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$4,745,757 of the District's bank balance of \$5,380,496 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$240,027	\$ 4,841,381
Investments	<u>0</u>
<u>TOTAL</u>	<u>\$ 4,841,381</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 83,916
Cash Private Purpose Trusts	156,111
Cash – District Wide	4,601,354
Investments – District Wide	<u>0</u>
<u>TOTAL</u>	<u>\$ 4,841,381</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 2,280,167
Federal Grants	<u>107,024</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 2,387,191</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the employment commission for all benefits charged against the District for the year. For the year ended June 30, 2005, the District's unemployment costs were \$101,672.

8) SHORT-TERM DEBT

The District borrowed \$4,500,000 at 1.57% interest per annum on August 20, 2004, from JPMorgan Chase on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance as of June 30, 2005 was \$4,500,000. The note matures on August 19, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$19,732,421	\$30,145	\$0	\$19,762,566
Land Improvements	115,788	0	0	115,788
Equipment and Furniture	1,661,167	14,160	0	1,675,327
Vehicles	1,110,027	0	0	1,110,027
Totals at Historical Cost	\$22,619,403	\$44,305	\$0	\$22,663,708
Less: Accumulated Depreciation				
Buildings and Improvements	(7,874,325)	(402,791)	0	(8,277,116)
Land Improvements	0	0	0	0
Equipment and Furniture	(1,118,656)	(157,583)	0	(1,276,239)
Vehicles	(869,838)	(66,621)	0	(936,459)
Total Accumulated Depreciation	(\$9,862,819)	(\$626,995)	\$0	(\$10,489,814)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$12,756,584</u>	<u>(\$582,690)</u>	<u>\$0</u>	<u>\$12,173,894</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 86,396
Athletics	5,431
Unallocated	535,168
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 626,995</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, and property and casualty insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$97,147 and the School District received a dividend refund of \$14,000.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

11) OPERATING LEASE

The District has a five year operating lease dated December 31, 2001 for a postage machine. Listed below are the future minimum lease payments.

June 30, 2006	\$ 1,392
June 30, 2007	<u>696</u>
<u>TOTAL</u>	<u>\$ 2,088</u>

12) LONG-TERM LIABILITIES

A) Energy Conservation Improvement Bonds

Durand Area Schools issued general obligation - limited tax bonds for the purpose of defraying the cost of energy conservation building improvements.

The bonds are dated April 1, 1996 in the aggregate amount of \$1,285,000 and require annual payments of principal and interest. The interest rates range from 4.40% to 6.20% per annum. The principal balance at June 30, 2005 was \$160,000.

B) Durant Resolution Package Bonds

Durand Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$270,227 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$172,639. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

C) Building and Site Bonds

Durand Area Schools issued general obligation - limited tax bonds for the purpose of defraying the cost of building a new middle school.

The bonds are dated August 1, 1997 in the aggregate amount of \$13,700,000 and require annual payments of principal and interest. The interest rates range from 5.250% to 5.375% per annum. These bonds were partially refunded in 2005 (See Note 12 D). The principal balance at June 30, 2005 was \$835,000.

D) 2005 REFUNDING BONDS

On March 29, 2005, the Durand Area Schools issued \$10,315,000 in General Obligation – Unlimited Tax Bonds with an average interest ranging from 3.00% to 4.40%. The District issued the bonds to advance refund \$10,710,000 of the outstanding 1997 Building & Site Bonds with a interest rate ranging from 5.250% to 5.375%. The net proceeds were deposited with an escrow agent and used to purchase U.S. Government Securities. These securities will provide for future debt service on the 2005 Refunding Bonds. As a result, the 1997 Refunding Bonds are considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$10,315,000 at June 30, 2005.

The advanced refunding reduced total debt service payments over the next twenty years by \$884,410. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$467,000. The balance of the 2005 Refunding Bonds as of June 30, 2005 was \$10,315,000.

E) Contracts Payable

Durand Area Schools is indebted at June 30, 2005 on the following contracts for bus purchases:

<u>Description</u>	<u>Interest</u>	<u>Principal</u>
2003 International (2)	2.875%	\$ 35,000

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

12) LONG-TERM LIABILITIES (Continued)

E) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2005 are as follows:

	Bonds Payable	Contracts Payable	Interest	Total
June 30, 2006	\$618,080	\$35,000	\$528,428	\$1,181,508
June 30, 2007	483,700	0	456,083	939,783
June 30, 2008	509,355	0	431,656	941,011
June 30, 2009	573,843	0	437,890	1,011,733
June 30, 2010	545,754	0	400,106	945,860
June 30, 2011-2015	3,021,907	0	1,674,889	4,696,796
June 30, 2016-2020	3,480,000	0	1,002,850	4,482,850
June 30, 2021-2023	2,250,000	0	197,250	2,447,250
<u>TOTAL</u>	<u>\$11,482,639</u>	<u>\$35,000</u>	<u>\$5,129,152</u>	<u>\$16,646,791</u>

The payment dates of sick and vacation pay payable is undeterminable. The interest expenditures on long-term obligations for the year were \$373,239.

G) Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2005.

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005	AMOUNT DUE IN ONE YEAR
Governmental Activities:					
Energy & Durant Bonds	\$482,639	\$0	\$150,000	\$332,639	\$173,080
Building & Site Bonds	11,930,000	10,315,000	11,095,000	11,150,000	445,000
Contracts Payable	92,307	0	57,307	35,000	35,000
Severance Payable	120,000	0	120,000	0	0
Sick & Vacation Pay Payable	646,755	0	62,827	583,928	0
<u>TOTAL</u>	<u>\$13,271,701</u>	<u>\$10,315,000</u>	<u>\$11,485,134</u>	<u>\$12,101,567</u>	<u>\$653,080</u>

13) INTERFUND ACTIVITY

Interfund activity at June 30, 2005 consisted of the following:

DUE TO	DUE FROM		
	DEBT RETIREMENT	CAPITAL PROJECTS	TOTAL
General Fund	<u>\$36,697</u>	<u>\$3,882</u>	<u>\$40,579</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

	TRANSFERS FROM	
	TRANSFERS TO	GENERAL FUND
Food Services Fund		\$50,000
Athletics Fund		305,000
Debt Retirement Fund		169,820
<u>TOTAL</u>		<u>\$524,820</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$1,247,237, \$1,203,916 and \$1,171,760, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

16) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principally of which is the Title I grant. This programs are subject to program compliance audits. The audit of this program for and including the year ended June 30, 2005, has been conducted and has been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

The District is a defendant in a claim by a former employee filed with the Michigan Department of Civil Rights and the Equal Employment Opportunity Commission a claim of discrimination based on age. The parties were not successful in an attempt to mediate this claim. The matter is currently under investigation by the Michigan Department of Civil Rights. The attorneys representing the District have stated that the likelihood of an unfavorable outcome is neither probable nor remote.

18) SUBSEQUENT EVENT

The District borrowed \$2,850,000 at 2.92% interest per annum on August 19, 2005, from JPMorgan Chase on a State Aid Anticipation Note.

REQUIRED
SUPPLEMENTARY
INFORMATION

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$1,258,944	\$1,368,148	\$1,297,832	(\$70,316)
State Sources	12,574,205	12,635,609	12,666,992	31,383
Federal Sources	516,300	523,300	553,164	29,864
Total Revenues	\$14,349,449	\$14,527,057	\$14,517,988	(\$9,069)
<u>EXPENDITURES</u>				
Current:				
Instruction	9,411,987	9,643,788	9,574,474	69,314
Student Services	360,582	368,022	353,454	14,568
Instructional Support	29,000	77,773	68,619	9,154
General Administration	405,745	389,950	406,954	(17,004)
School Administration	1,133,457	1,137,388	1,147,772	(10,384)
Business Administration	421,622	472,084	517,428	(45,344)
Operation & Maintenance of Plant	1,210,406	1,232,009	1,213,941	18,068
Transportation	850,483	764,366	728,498	35,868
Community Services	197,416	114,677	112,376	2,301
Total Expenditures	\$14,020,698	\$14,200,057	\$14,123,516	\$76,541
Excess of Revenues Over Expenditures	\$328,751	\$327,000	\$394,472	\$67,472
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(386,070)</u>	<u>(379,888)</u>	<u>(456,081)</u>	<u>(76,193)</u>
Net Change in Fund Balance	(\$57,319)	(\$52,888)	(\$61,609)	(\$8,721)
<u>FUND BALANCE - BEGINNING</u>			259,579	
<u>FUND BALANCE - ENDING</u>			\$197,970	

OTHER SUPPLEMENTAL
INFORMATION

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005

	Special Revenue Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$23,581	\$227,679	\$251,260
Due From Other Governmental Units	5,105	0	5,105
Due From Other Funds	0	3,882	3,882
Inventory	9,042	0	9,042
<u>TOTAL ASSETS</u>	<u>\$37,728</u>	<u>\$231,561</u>	<u>\$269,289</u>
<u>LIABILITIES</u>			
Accounts Payable	\$9,591	\$0	\$9,591
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	9,042	0	9,042
Capital Projects	0	231,561	231,561
Unreserved:			
Undesignated, Reported In:			
School Service Fund	19,095	0	19,095
Total Fund Balances	<u>\$28,137</u>	<u>\$231,561</u>	<u>\$259,698</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$37,728</u>	<u>\$231,561</u>	<u>\$269,289</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$376,526	\$159,759	\$536,285
State Sources	28,973	0	28,973
Federal Sources	225,815	0	225,815
Total Revenues	<u>\$631,314</u>	<u>\$159,759</u>	<u>\$791,073</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Bond Proceeds - Refinancing	0	0	0
Transfers from Other Funds	355,000	0	355,000
Total Other Financing Sources (Uses)	<u>\$355,000</u>	<u>\$0</u>	<u>\$355,000</u>
Total Revenues & Other Financing Sources (Uses)	\$986,314	\$159,759	\$1,146,073
<u>EXPENDITURES</u>			
Food Service	979,926	0	979,926
Debt Service			
Principal	0	0	0
Interest	0	0	0
Other	0	0	0
Capital Projects	0	32,183	32,183
Total Expenditures	<u>\$979,926</u>	<u>\$32,183</u>	<u>\$1,012,109</u>
Net Change in Fund Balance	\$6,388	\$127,576	\$133,964
<u>NET ASSETS - BEGINNING</u>	<u>21,749</u>	<u>103,985</u>	<u>125,734</u>
<u>NET ASSETS - ENDING</u>	<u>\$28,137</u>	<u>\$231,561</u>	<u>\$259,698</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$12,620	\$10,961	\$23,581
Due From Other Governmental Units	5,105	0	5,105
Inventory	<u>9,042</u>	<u>0</u>	<u>9,042</u>
<u>TOTAL ASSETS</u>	<u>\$26,767</u>	<u>\$10,961</u>	<u>\$37,728</u>
<u>LIABILITIES</u>			
Accounts Payable	\$7,015	\$2,576	\$9,591
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	9,042	0	9,042
Fund Balance - Unreserved and Undesignated	<u>10,710</u>	<u>8,385</u>	<u>19,095</u>
Total Fund Equity	<u>\$19,752</u>	<u>\$8,385</u>	<u>\$28,137</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$26,767</u>	<u>\$10,961</u>	<u>\$37,728</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

<u>REVENUES</u>	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
Local Sources			
Cafeteria Sales	\$291,812	\$0	\$291,812
Athletic Activities	0	84,714	84,714
Total Local Sources	\$291,812	\$84,714	\$376,526
State Sources			
State Reimbursements	28,973	0	28,973
Federal Sources			
Federal Reimbursements	225,815	0	225,815
Total Revenues	\$546,600	\$84,714	\$631,314
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	50,000	305,000	355,000
Total Revenues and Other Financing Sources	\$596,600	\$389,714	\$986,314
<u>EXPENDITURES</u>			
Salaries - Professional	44,250	77,830	122,080
Salaries - Non-Professional	167,946	160,238	328,184
Insurances	40,897	16,929	57,826
Fica, Retirement, Etc.	47,257	53,124	100,381
Purchased Services	6,134	21,261	27,395
Supplies and Materials	287,292	54,073	341,365
Capital Outlay	1,446	0	1,446
Other	364	885	1,249
Total Expenditures	\$595,586	\$384,340	\$979,926
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	\$1,014	\$5,374	\$6,388
<u>FUND BALANCE - BEGINNING OF YEAR</u>	\$18,738	\$3,011	\$21,749
<u>FUND BALANCE - END OF YEAR</u>	\$19,752	\$8,385	\$28,137

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2005

REVENUES FROM
Local Sources

Property Tax Levy	\$917,248
Earnings on Investments and Deposits	36,539
Preschool	124,350
Tuition - Summer School	3,440
Tuition	36,440
Transportation	62,630
Medicaid School Based Services	37,032
Other Local Revenues	80,153
Total Revenues from Local Sources	<u>\$1,297,832</u>

State Sources

State Aid	11,933,642
Special Ed Headlee	274,713
Michigan Readiness	118,800
At Risk	263,961
Vocational Education	48,577
Durant	27,023
Advanced Learning	276
Total Revenues from State Sources	<u>\$12,666,992</u>

Federal Sources

Title I	403,873
Improving Teacher Quality	133,252
CM White Physical Fitness - Pep Grant	937
Technology Literacy	9,361
Medicaid	2,873
Title V	2,868
Total Revenues from Federal Sources	<u>553,164</u>
Total Revenues	<u>\$14,517,988</u>

OTHER FINANCING SOURCES

Act 18 - County Special Education Tax	95,245
Transfers From Other Districts	320,421
Total Other Financing Sources	<u>\$415,666</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES
\$14,933,654

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION
BASIC PROGRAMS
Wilbur Bills - Elementary

Salaries - Professional	\$334,080
Salaries - Non-Professional	22,292
Insurances	113,895
Fica, Retirement, Etc.	79,319
Purchased Services	14,152
Supplies and Materials	50,507
Total Wilbur Bills - Elementary	<u>\$614,245</u>

Robert Kerr - Elementary

Salaries - Professional	657,151
Salaries - Non-Professional	36,643
Insurances	169,048
Fica, Retirement, Etc.	155,008
Purchased Services	13,938
Supplies and Materials	15,644
Total Robert Kerr - Elementary	<u>\$1,047,432</u>

Doyle Knight - Elementary

Salaries - Professional	591,057
Salaries - Non-Professional	24,192
Insurances	166,219
Fica, Retirement, Etc.	137,245
Purchased Services	13,993
Supplies and Materials	11,306
Total Doyle Knight- Elementary	<u>\$944,012</u>

Bertha Neal - Elementary

Salaries - Professional	583,676
Salaries - Non-Professional	21,149
Insurances	164,725
Fica, Retirement, Etc.	135,027
Purchased Services	13,626
Supplies and Materials	14,959
Total Bertha Neal - Elementary	<u>\$933,162</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)BASIC PROGRAMS (Continued)Junior High

Salaries - Professional	\$1,079,233
Salaries - Non-Professional	26,534
Insurances	291,011
Fica, Retirement, Etc.	244,073
Purchased Services	12,841
Supplies and Materials	18,758
Total Junior High	<u>\$1,672,450</u>

High School

Salaries - Professional	1,139,212
Salaries - Non-Professional	41,899
Insurances	297,766
Fica, Retirement, Etc.	269,429
Purchased Services	45,349
Supplies and Materials	72,899
Other	1,000
Total High School	<u>\$1,867,554</u>

Preschool

Salaries - Professional	58,390
Salaries - Non-Professional	19,680
Insurances	11,026
Fica, Retirement, Etc.	16,698
Purchased Services	12,747
Supplies and Materials	3,172
Other	1,181
Total Preschool	<u>\$122,894</u>

Total Basic Programs

\$7,201,749

ADDED NEEDSSpecial Education

Salaries - Professional	679,425
Salaries - Non-Professional	133,403
Insurances	191,197
Fica, Retirement, Etc.	181,607
Supplies and Materials	1,416
Total Special Education	<u>\$1,187,048</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)

ADDED NEEDS (Continued)

Compensatory Education

Salaries - Professional	\$390,931
Salaries - Non-Professional	48,229
Insurances	91,746
Fica, Retirement, Etc.	97,910
Purchased Services	180,965
Supplies and Materials	14,376
Other	359
Total Compensatory Education	<u>\$824,516</u>

Vocational Education

Salaries - Professional	200,834
Insurances	60,680
Fica, Retirement, Etc.	44,739
Purchased Services	1,520
Supplies and Materials	23,600
Capital Outlay	24,903
Total Vocational Education	<u>\$356,276</u>

Total Added Needs	\$2,367,840
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Adult Education

Salaries - Professional	3,927
Insurances	74
Fica, Retirement, Etc.	884
Total Adult Education	<u>\$4,885</u>

Total Instruction

\$9,574,474

SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	231,624
Salaries - Non-Professional	28,840
Insurances	32,881
Fica, Retirement, Etc.	46,565
Purchased Services	12,096
Supplies and Materials	1,448
Total Student Services	<u>\$353,454</u>

INSTRUCTIONAL STAFF

Salaries - Professional	43,494
Insurances	13,161
Fica, Retirement, Etc.	8,892
Purchased Services	45
Supplies and Materials	3,027
Total Instructional Staff	<u>\$68,619</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)

GENERAL ADMINISTRATION

Salaries - Professional	\$173,120
Salaries - Non-Professional	50,087
Insurances	46,392
Fica, Retirement, Etc.	51,796
Purchased Services	37,841
Supplies and Materials	8,863
Capital Outlay	38,855
Total General Administration	<u>\$406,954</u>

SCHOOL ADMINISTRATION

Salaries - Professional	549,458
Salaries - Non-Professional	213,637
Insurances	214,925
Fica, Retirement, Etc.	168,699
Purchased Services	1,053
Total School Administration	<u>\$1,147,772</u>

BUSINESS OFFICE

Salaries - Professional	78,640
Salaries - Non-Professional	51,707
Insurances	31,555
Fica, Retirement, Etc.	143,138
Purchased Services	90,495
Capital Outlay	16,668
Other	105,225
Total Business Office	<u>\$517,428</u>

OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	27,613
Salaries - Non-Professional	347,542
Insurances	132,024
Fica, Retirement, Etc.	83,058
Purchased Services	297,432
Supplies and Materials	326,272
Total Operation and Maintenance of Plant	<u>\$1,213,941</u>

TRANSPORTATION

Salaries - Professional	27,613
Salaries - Non-Professional	295,672
Insurances	98,093
Fica, Retirement, Etc.	69,636
Purchased Services	40,418
Supplies and Materials	134,609
Capital Outlay	1,526
Other	60,931
Total Transportation	<u>\$728,498</u>

<u>Total Support Services</u>	<u>\$4,436,666</u>
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DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

COMMUNITY SERVICES

Salaries - Professional	\$70,983
Insurances	16,506
Fica, Retirement, Etc.	16,147
Purchased Services	3,177
Supplies and Materials	4,833
Other	730
Total Community Services	<u>\$112,376</u>

TOTAL EXPENDITURES

\$14,123,516

OTHER FINANCING USES

Transfer to Other Funds	524,820
Transfers to Other Districts	173,660
Sick Day Payout	8,863
Teacher Buyouts	<u>164,404</u>

TOTAL OTHER FINANCING USES

\$871,747

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$14,995,263

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
AD	\$2,730	\$7,724	\$7,449	\$3,005
Alternative Ed	5	0	0	5
Annual Account	2,095	16,181	3,304	14,972
AP Exams	0	904	854	50
Art Club	(2,195)	29,179	24,829	2,155
ATOD	11	0	0	11
Band	17	114	0	131
Baseball	993	4,302	3,282	2,013
Basketball - Jr. High	(295)	295	0	0
Basketball Club	4,771	5,920	7,093	3,598
Beautification - HS	149	0	0	149
Book Deposit Fees	2,584	7,431	4,120	5,895
Books Fees	5,491	0	117	5,374
Cheerleaders	(529)	9,072	8,590	(47)
Cheerleading - MS	0	457	457	0
Class of 2000	838	0	0	838
Class of 2002	1,398	0	0	1,398
Class of 2003	1,947	0	0	1,947
Class of 2004	1,394	0	1,001	393
Class of 2005	2,787	6,170	7,696	1,261
Class of 2006	1,380	16,791	13,710	4,461
Class of 2007	225	3,913	4,105	33
Class of 2008	0	1,974	1,505	469
Counseling	1,295	1,107	1,417	985
Cross Country	(10)	479	250	219
Debarr Scholarship	85	0	85	0
Drafting	53	0	0	53
Drama Club	401	0	0	401
Education Program - A	14,222	16,625	13,367	17,480
Education Program - B	(2,279)	0	0	(2,279)
F.F.A.	565	7,004	5,359	2,210
FCCLA	606	132	680	58
Flower Fund - HS	17	80	70	27
Football Club	1,018	6,513	6,339	1,192
French Club	260	0	0	260
Girls Basketball - HS	236	2,333	1,174	1,395
Gym Locks	195	30	110	115
Industry	307	0	307	0
Junior Achievement	208	0	0	208
Landscape	52	0	0	52
Library Book Fines	(349)	160	0	(189)
Lions Scholarship	35	0	0	35
Math	63	0	0	63
Sub-Total	\$42,776	\$144,890	\$117,270	\$70,396

DURAND AREA SCHOOLS - DURAND, MICHIGAN

TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM)	RECEIPTS	DISBURSEMENTS	DUE TO (FROM)
	STUDENT GROUPS JULY 1, 2004			STUDENT GROUPS JUNE 30, 2005
National Honor Society	\$319	\$1,062	\$736	\$645
Poms	354	260	136	478
Road Test	1,082	15,027	13,326	2,783
RTV	364	0	364	0
S.A.D.D.	536	0	0	536
S.P.E.D.	(323)	0	0	(323)
Science	25	600	379	246
Self Esteem Committee	461	0	142	319
Sign Committee	1,640	0	0	1,640
Ski Club	1,215	2,354	2,050	1,519
Soccer - Boys	(26)	1,745	1,535	184
Soccer - Girls	80	495	50	525
Social Studies	1,344	0	1	1,343
Softball Club	69	2,363	2,255	177
Spanish Club	345	0	0	345
Student Government	430	2,968	2,319	1,079
Summerhays Scholarship	393	0	393	0
Technology	15	0	15	0
Tennis	192	0	0	192
Tirtha Scholarship	(500)	500	500	(500)
Track - Boys	109	8,242	7,076	1,275
Track - Girls	(182)	182	0	0
Volleyball	(1,160)	5,428	3,884	384
Youth B-Ball	0	673	0	673
<u>TOTALS</u>	<u>\$49,558</u>	<u>\$186,789</u>	<u>\$152,431</u>	<u>\$83,916</u>

DURAND AREA SCHOOL - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

<u>HARVEY FOX SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$24,009
<u>REVENUE</u>		
Interest		117
<u>EXPENDITURES</u>		
Scholarship Awards		610
Service Fees		1
Total Expenditures		<u>\$611</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$23,515</u>
<u>ROBERT McALPINE SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$11,564
<u>REVENUE</u>		
Interest		<u>55</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$11,619</u>
<u>MR. AND MRS. SUMMERHAYS SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$2,580
<u>REVENUE</u>		
Interest		21
Donations		393
Total Revenue		<u>\$414</u>
<u>EXPENDITURES</u>		
Service Fees		<u>1</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$2,993</u>
<u>RAYMOND McLAUGHLIN MEMORIAL SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$54,745
<u>REVENUE</u>		
Interest		271
<u>EXPENDITURES</u>		
Fund Transfer		1,080
Scholarships		1,998
Total Expenditures		<u>\$3,078</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$51,938</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

<u>KENNETH LEE ACKERMAN SCHOLARSHIP FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$2,096
<u>REVENUE</u>		
Interest		<u>10</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$2,106</u>
<u>COURTNEY DEISLER FUND</u>		
<u>BALANCE - JULY 1, 2004</u>		\$7,311
<u>REVENUE</u>		
Fund Transfer		401
Interest		<u>115</u>
Total Revenue		\$516
<u>EXPENDITURES</u>		
Service Fees		<u>1</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$7,826</u>
<u>OPTIMIST SCHOLARSHIP</u>		
<u>BALANCE - JULY 1, 2004</u>		\$10,150
<u>REVENUE</u>		
Fund Transfer		1,080
Interest		<u>53</u>
Total Revenue		<u>\$1,133</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$11,283</u>
<u>DARE FOR DURAND AREA SCHOOLS</u>		
<u>BALANCE - JULY 1, 2004</u>		\$15,098
<u>REVENUE</u>		
Interest		<u>61</u>
<u>BALANCE - JUNE 30, 2005</u>		<u>\$15,159</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

<u>NEAL SISTERS</u>	
<u>BALANCE - JULY 1, 2004</u>	\$12,168
<u>REVENUE</u>	
Interest	61
Donations	6,000
Total Revenue	<u>\$6,061</u>
<u>EXPENDITURES</u>	
Scholarship Awards	<u>3,442</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$14,787</u>
<u>SEDLOCK</u>	
<u>BALANCE - JULY 1, 2004</u>	\$2,640
<u>REVENUE</u>	
Interest	<u>10</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$2,650</u>
<u>JOHN A RICHARD MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$12,335
<u>REVENUE</u>	
Interest	55
<u>EXPENDITURES</u>	
Scholarships	154
Service Fees	1
Total Expenditures	<u>\$155</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$12,235</u>
<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2005</u>	<u>\$156,111</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2005

1996 ENERGY CONSERVATION IMPROVEMENT BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2005-2006	<u>\$160,000</u>	6.20%	<u>\$4,960</u>	<u>\$4,960</u>	<u>\$169,920</u>

These funds were utilized for capital improvements.

1997 SCHOOL BUILDING AND SITE BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2005-2006	\$405,000	5.250%	\$21,918	\$21,918	\$448,836
2006-2007	<u>430,000</u>	5.250%	<u>11,288</u>	<u>11,287</u>	<u>452,575</u>
TOTAL	<u>\$835,000</u>		<u>\$33,206</u>	<u>\$33,205</u>	<u>\$901,411</u>

2005 REFUNDING BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2005-2006	\$40,000	3.000%	\$252,890	\$214,718	\$507,608
2006-2007	40,000	3.000%	214,118	214,117	468,235
2007-2008	495,000	3.000%	213,517	213,518	922,035
2008-2009	510,000	3.000%	206,092	206,092	922,184
2009-2010	530,000	3.500%	198,442	198,442	926,884
2010-2011	550,000	3.500%	189,167	189,168	928,335
2011-2012	570,000	3.550%	179,543	179,542	929,085
2012-2013	595,000	5.000%	169,425	169,425	933,850
2013-2014	615,000	4.000%	154,550	154,550	924,100
2014-2015	640,000	4.000%	142,250	142,250	924,500
2015-2016	655,000	4.000%	129,450	129,450	913,900
2016-2017	680,000	4.000%	116,350	116,350	912,700
2017-2018	695,000	5.000%	102,750	102,750	900,500
2018-2019	715,000	5.000%	85,375	85,375	885,750
2019-2020	735,000	5.000%	67,500	67,500	870,000
2020-2021	750,000	4.300%	49,125	49,125	848,250
2021-2022	750,000	4.400%	33,000	33,000	816,000
2022-2023	<u>750,000</u>	4.400%	<u>16,500</u>	<u>16,500</u>	<u>783,000</u>
<u>TOTAL</u>	<u>\$10,315,000</u>		<u>\$2,520,044</u>	<u>\$2,481,872</u>	<u>\$15,316,916</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2005

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$270,227

1998 DURANT RESOLUTION PACKAGE BONDS

	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$13,080	4.761353%	\$5,896	\$18,976
2007	13,700	4.761353%	5,273	18,973
2008	14,355	4.761353%	4,621	18,976
2009	63,843	4.761353%	25,706	89,549
2010	15,754	4.761353%	3,222	18,976
2011	16,505	4.761353%	2,471	18,976
2012	17,289	4.761353%	1,686	18,975
2013	18,113	4.761353%	862	18,975
	<u>\$172,639</u>		<u>\$49,737</u>	<u>\$222,376</u>
<u>TOTAL</u>				

DURAND AREA SCHOOLS
DURAND, MICHIGAN
FEDERAL AWARDS
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

CONTENTS

	<u>PAGE</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	2 – 3
Schedule of Expenditures of Federal Awards for the year ended June 30, 2005	4 – 5
Notes/Reconciliation to the Schedule of Expenditures of Federal Awards for the year ended June 30, 2005	6
Reconciliation of Form R7120 "Grant Section Auditor's Report" to the Schedule of Expenditures of Federal Awards for the year ended June 30, 2005	7
Summary of Findings and Questioned Costs for the year ended June 30, 2005	8 – 9
Status of Prior Year Findings	9



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 17, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Durand Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the Durand Area Schools' basic financial statements and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durand Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Durand Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Durand Area Schools, in a separate letter dated August 17, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 17, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Durand Area Schools

Compliance

We have audited the compliance of Durand Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Durand Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Durand Area Schools' management. Our responsibility is to express an opinion on Durand Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Durand Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Durand Area Schools' compliance with those requirements.

In our opinion, Durand Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Durand Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Durand Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Durand Area Schools
Page 2
August 17, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Durand Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Education Agencies	84.010		
ESEA I - Regular (04-05)		51530-0405	\$377,147
ESEA I - Regular (03-04)		41530-0304	420,726
Total Title I			<u>\$797,873</u>
 Innovative Education Program Strategies	 84.298		
Title V (04-05)		50250-0405	1,230
Title V (03-04)		40250-0304	1,638
Total Innovative Education Program Strategies			<u>\$2,868</u>
 Technology Literacy Challenge	 84.318		
Title IID (04-05)		54290-0405	9,585
Title IID (03-04)		44290-0304	10,190
Total Technology Literacy Challenge			<u>\$19,775</u>
 Improving Teacher Quality	 84.367		
Title IIA (04-05)		50520-0405	125,041
Title IIA (03-04)		40520-0304	125,686
Total Improving Teacher Quality			<u>\$250,727</u>
Total Passed Through Michigan Department of Education			<u>\$1,071,243</u>
 Passed Through Genesee Intermediate School District:			
PEP - C.M. White Physical Fitness (03-04)	84.215F	Q215F031137	<u>4,000</u>
 <u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			 <u>\$1,075,243</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	22,983
Bonus Commodities		N/A	6,421
Total Commodities			<u>\$29,404</u>
 School Breakfast Program	 10.553	 N/A	 33,914
 National School Lunch Program	 10.555	 N/A	 157,125
 <u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			 <u>\$220,443</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$0	\$0	\$366,697	\$0	\$292,458	\$74,239
(7,910)	383,550	37,176	0	29,266	0
<u>(\$7,910)</u>	<u>\$383,550</u>	<u>\$403,873</u>	<u>\$0</u>	<u>\$321,724</u>	<u>\$74,239</u>
0	0	1,230	0	0	1,230
0	0	1,638	0	0	1,638
<u>\$0</u>	<u>\$0</u>	<u>\$2,868</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,868</u>
0	0	1,064	0	0	1,064
0	1,893	8,297	0	0	8,297
<u>\$0</u>	<u>\$1,893</u>	<u>\$9,361</u>	<u>\$0</u>	<u>\$0</u>	<u>\$9,361</u>
0	0	88,693	0	68,137	20,556
1,846	81,127	44,559	0	46,405	0
<u>\$1,846</u>	<u>\$81,127</u>	<u>\$133,252</u>	<u>\$0</u>	<u>\$114,542</u>	<u>\$20,556</u>
<u>(\$6,064)</u>	<u>\$466,570</u>	<u>\$549,354</u>	<u>\$0</u>	<u>\$436,266</u>	<u>\$107,024</u>
0	4,000	937	0	937	0
<u>(\$6,064)</u>	<u>\$470,570</u>	<u>\$550,291</u>	<u>\$0</u>	<u>\$437,203</u>	<u>\$107,024</u>
0	0	22,983	0	22,983	0
0	0	6,421	0	6,421	0
<u>\$0</u>	<u>\$0</u>	<u>\$29,404</u>	<u>\$0</u>	<u>\$29,404</u>	<u>\$0</u>
0	0	33,914	(1,716)	32,198	0
0	0	157,125	0	157,125	0
<u>\$0</u>	<u>\$0</u>	<u>\$220,443</u>	<u>(\$1,716)</u>	<u>\$218,727</u>	<u>\$0</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Capital Area Community Services			
Head Start	93.600	N/A	\$7,088
Passed Through Shiawassee RESD			
Medical Assistance Program Title XIX			
Medicaid Outreach	93.778	N/A	<u>2,873</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			<u>\$9,961</u>
<u>TOTAL FEDERAL AWARDS</u>			<u><u>\$1,305,647</u></u>

<u>ACCRUED (DEFERRED) REVENUE JULY 1, 2004</u>	<u>PRIOR YEAR EXPENDITURES</u>	<u>CURRENT YEAR EXPENDITURES</u>	<u>ADJUSTMENTS PRIOR YEARS</u>	<u>CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED</u>	<u>ACCRUED (DEFERRED) REVENUE JUNE 30, 2005</u>
\$0	\$0	\$7,088	\$0	\$7,088	\$0
<u>0</u>	<u>0</u>	<u>2,873</u>	<u>0</u>	<u>2,873</u>	<u>0</u>
<u>\$0</u>	<u>\$0</u>	<u>\$9,961</u>	<u>\$0</u>	<u>\$9,961</u>	<u>\$0</u>
<u>(\$6,064)</u>	<u>\$470,570</u>	<u>\$780,695</u>	<u>(\$1,716)</u>	<u>\$665,891</u>	<u>\$107,024</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	\$780,695
<u>Less: Adjustment</u>	<u>(1,716)</u>
<u>TOTAL</u>	<u><u>\$778,979</u></u>

FEDERAL REVENUE RECOGNIZED PER THE GENERAL PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund	\$553,164
School Service Fund	<u>225,815</u>
<u>TOTAL</u>	<u><u>\$778,979</u></u>

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.
- 4) An adjustment of \$1,716 was made to the School Breakfast program due to an adjustment by the State on the R7120.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Current Payments Per the Grant Section Auditor's Report (Form R 7120)	\$625,589
<u>Add:</u> Grants Passed Through Genesee Intermediate School District: PEP - C.M. White Physical Fitness (CFDA 84.215F)	937
Grants Passed Through Shiawassee Intermediate School District: Medicaid Outreach (CFDA 93.778)	2,873
Entitlement and Bonus Commodities	29,404
Head Start (CFDA 93.600)	<u>7,088</u>
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	<u><u>\$665,891</u></u>

DURAND AREA SCHOOLS- DURAND, MICHIGAN
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no current year findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no current year findings.

DURAND AREA SCHOOLS- DURAND, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

2004-1) Title I (CFDA #84.010)

<u>Specific Requirement:</u>	Allowable Cost/Cost Principles.
<u>Condition:</u>	The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.
<u>Criteria:</u>	The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".
<u>Effect of Condition:</u>	Salaries and wages charged to the program could be disallowed.
<u>Cause of Condition:</u>	The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.
<u>Recommendation:</u>	The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Status:</u>	The District has developed a standard time certification form and has the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Questioned Cost:</u>	None.



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 17, 2005

To the Board of Education of
Durand Area Schools

In planning and performing our audit of the financial statements of Durand Area Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Durand Area Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, Durand Area Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Athletics

We recommend requiring the officials to fill out a payment request form before they receive payment for services. This form should be approved by an authorized official and will serve as supporting documentation.

3. Daycare

We recommend making a deposit at least once a week. When making the weekly deposit, the director and one other staff member will count the funds from each day and list each day separately on the deposit ticket. The deposit ticket should match the receipts register for each day of the week.

4. Community Education

We suggest that the community education director obtain a roster for each class that is offered and use that to tie down receipts received for each class.

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Durand Area Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.



Durand Area Schools

Page 2

August 17, 2005

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

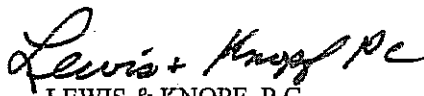
The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Durand Area Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS